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## Untenable Assault On Our Farm Subsidies

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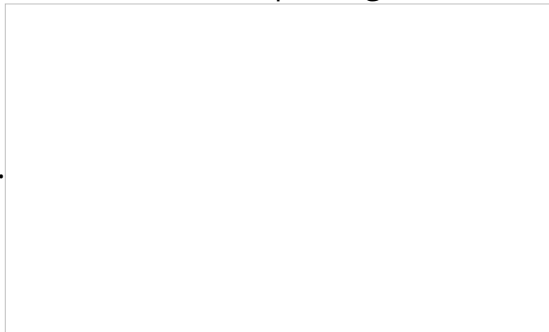
(This editorial is based on the article “Untenable Assault On Our Farm Subsidies” which appears in BusinessLine on 5th December 2018.)

**At a time when the government is offering enhanced Minimum Support Prices (MSP) to the farmers for the Kharif crops, India’s farm subsidies’ regime has come under intense scrutiny in the World Trade Organization (WTO).**

**Minimum Support Price (MSP)** is a form of market intervention by the Government of India to ensure agricultural producers against any sharp fall in farm prices. The minimum support prices are announced by the Government of India at the beginning of the sowing season for certain crops on the basis of the recommendations of the Commission for Agricultural Costs and Prices (CACP).

**Over the past few years, the implementation of the National Food Security Act has also been questioned in the WTO, as several members argued that India’s agricultural subsidies were violating the disciplines of the Agreement on Agriculture\* (AoA).** After considerable remonstrations, India obtained a temporary respite after being assured that no WTO member would initiate a dispute against India, even if its subsidies were in excess of its

commitments.



Recently, various aspects of India’s agricultural policies came in for close scrutiny by several WTO members, including Australia, Brazil, Canada, European Union, Japan, Russia, and the USA. **India has been questioned on its supply management policies for skimmed milk**

**powder, sugar, and pulses, in particular, the export subsidies granted to all these products/commodities and the import restriction on pulses.**

### **Agreement on Agriculture (AoA)**

- The WTO Agreement on Agriculture, which came into force in 1995, represents a significant step towards reforming agricultural trade and making it fairer and more competitive. The Agriculture Committee oversees implementation of the Agreement. Members continue to conduct negotiations for further reform.
- **In 2015, they adopted a historic decision to abolish agricultural export subsidies and to set rules for other forms of farm export support.**
- **AoA fixes the market price support that countries can provide to each crop. For developing countries like India, the market price support for a crop cannot exceed 10 percent of the total value of its production.**
- AoA gives the freedom to the WTO members to calculate their market price support using any currency; the tacit understanding is that the data presented by a country must be consistent.
- **AoA does not allow India to use direct export subsidies, but subsidies for reducing the costs of marketing exports of agricultural products and for internal transport and freight charges on export shipments can be provided.**

### **Background**

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- In May, the US questioned the basis for the grant of MSP to wheat and rice and more recently subsidies for cotton. In its submission to the WTO, the US has shown India's market price support for rice was consistently above 70 percent of the value of production since 2010-11 and above 60 percent for wheat during the same period, while for cotton it varied between 53 and 81 percent.
- **A second issue that the US has raised is regarding the quantity procured or "eligible production". India has maintained that "eligible production" must be that part of the total production of a crop that is actually procured by the agencies.**
- The US has been hinting that India must declare its "eligible production" before the actual procurement takes place (which India opposes). Announcing "eligible production" prior to actual procurement can have two adverse implications for the farmers in India. If "eligible production" is set at a higher level, it can either influence their decision to produce a particular crop and if it is set a relatively low level, they would be denied the benefit of the MSP.
- **Australia has followed the US to challenge India's price policy for sugarcane.** Its main argument is that India provides implicit subsidies but has not declared this to the WTO. This is despite India's long-standing position that it only sets Fair and Remunerative Price for sugarcane, according to the Sugarcane (Control) Order, 1966, which the sugar mills are expected to pay to the farmers.

## Fair and Remunerative Price

- With the amendment of the Sugarcane (Control) Order, 1966, the concept of Statutory Minimum Price (SMP) of sugarcane was replaced with the 'Fair and Remunerative Price' (FRP) of sugarcane for 2009-10 and subsequent sugar seasons.
- The cane price announced by the Central Government is decided on the basis of the recommendations of the Commission for Agricultural Costs and Prices (CACP) after consulting the State Governments and associations of the sugar industry.
- Under the FRP system, the farmers are not required to wait until the end of the season or for an announcement of the profits by sugar mills or the Government.
- This system also assures margins on account of profit and risk to farmers, irrespective of the fact whether sugar mills generate profit or not and is not dependent on the performance of any individual sugar mill

## Calculation of Subsidies

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- Subsidies provided by WTO members are calculated with reference to international prices, which are assumed to be the competitive prices.
- In the negotiations leading to the adoption of the AoA, the international price of each commodity was a fixed "external reference price" (ERP), taken as the average of the international prices during 1986-88.
- For developing countries like India, the market price support for a crop cannot exceed 10 percent of the total value of its production. India's market price support to its crops never exceeded 10 percent of their value of production. However, the US has challenged India arguing that its market price support to the major crops is well above this threshold.

## Way Forward

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- **The first observation is that the creeping crisis in Indian agriculture requires flexibility in the use of policy instruments, which the framework provided by the AoA does not provide.**
- The Centre must get its act together for undertaking a structural transformation of the agricultural sector, one that puts the interests of the small and marginal farmer and the landless labour at the center. **The WTO rules have little tolerance for ad hoc policy making in agriculture; only a coherent set of policies that result in sustained improvement of peasant agriculture can stand scrutiny.**
- There is a strong need for India to focus on the revival of the Doha Round. India needs a flexible policy regime to deal with its fragile farm sector. It is imperative to revive the Doha Round of WTO.
- **The Nairobi Ministerial Conference held in 2015 had taken a decision that developing countries would be allowed to use indirect export subsidies only up**

**to the end of 2023.** This would mark the end of all policy instruments to support export subsidies in agriculture. Alternative support systems should be initiated by developing countries.

## **The Doha Round**

- The Doha Round is the latest round of trade negotiations among the WTO membership.
  - The agriculture negotiations began in 2000, under a commitment members made in the 1986–94 Uruguay Round to continue reform in the trade. They were brought into the Doha Round when it was launched in 2001.
  - Broadly, the objective is to reduce distortions in agricultural trade caused by high tariffs and other barriers, export subsidies, and some kinds of domestic support.
  - The negotiations also take into account social and political sensitivities in the sector and the needs of developing countries.
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